

## OVERVIEW OF BUDGET

**DEPARTMENT: ARROWHEAD REGIONAL MEDICAL CENTER**  
**DIRECTOR: MARK H. UFFER**

	2003-04				
	Operating Exp/ Appropriation	Revenue	Fund Balance	Rev Over/ (Under) Exp	Staffing
Arrowhead Regional Medical Center	274,094,127	263,631,781		(10,462,346)	2,299.9
Telemedicine Federal Grant Fund	-	-	-		-
Tobacco Tax Funds	4,390,510	3,648,209	742,301	-	-
Total	278,484,637	267,279,990	742,301	(10,462,346)	2,299.9

**BUDGET UNIT: ARROWHEAD REGIONAL MEDICAL CENTER (EAD MCR)**

### I. GENERAL PROGRAM STATEMENT

The Arrowhead Regional Medical Center (ARMC) provides inpatient and outpatient medical care to county residents in accordance with state law. The medical center operates through an enterprise fund. Under this system, revenues earned from operations are retained to fund the program.

Revenue sources for ARMC are comprised of the following: current services, Disproportionate Share Hospital (DSH) Programs (SB 855, SB 1255, GME), third party payors such as Medi-Cal and Medicare, tobacco tax funds, miscellaneous revenue, and Health Realignment. Summary information regarding key components of this budget unit appears below. The "Rev Over/(Under) Exp" amount shown above reflects the enterprise fund's depreciation requirement, and is not a shortfall to the budget. Depreciation expense of \$12,000,000 is included as an operating expense; because funding is not required to offset this amount, a corresponding amount of revenue is not budgeted.

- The current services revenue category is comprised of:
  - Insurance revenue from third party insurance carriers paying on behalf of patients primarily receiving services from ARMC's trauma center. This revenue accounts for 14.2% of ARMC's net revenue.
  - A contract with the Department of Behavioral Health, for provision of services to mentally ill inpatients, accounts for 7.5% of ARMC's net revenue.
  - Self-pay revenue consists of payments from patients who do not qualify for any reimbursement program and are responsible for their own bills; it accounts for 2.2% of ARMC's net revenue.
- The DSH programs were established to provide supplemental Medi-Cal payments to certain hospitals that provide services to disproportionate numbers of Medi-Cal and other low-income patients. These programs assist safety net hospitals in meeting the uncompensated costs associated with providing medical services to uninsured and underinsured patients. These programs are mechanisms for distributing federal health care funds. The programs require the county to transfer general fund dollars (reflected in the Health Care Costs (HCC) budget unit) to the state. Through a matching process, the county receives back its initial contribution, which is recorded in the HCC budget unit as current services revenue. In addition to the return of the initial contribution, the county receives federal health dollars which are accounted for in the ARMC budget in the state and federal category. The level of the county's contribution is set during the year by the state. As a result, the amounts in the HCC budget only represent estimates of the funds that will be needed to support the transfers, which take place during the coming fiscal year. In a similar fashion, this budget cannot fully reflect the amount of federal health dollars received via DSH programs until the county is notified of the matching amounts during the course of the fiscal year. The DSH programs are comprised of two elements:
  - The SB 855 program provides supplemental payments to hospitals that serve a disproportionate number of low-income individuals. Public entities are required to transfer funds to the State Department of Health Services by an intergovernmental transfer. These funds are matched with federal funds and redistributed as supplemental payments to all eligible hospitals including non-public hospitals. A hospital may receive DSH payments if its Medi-Cal utilization rate exceeds an established threshold or it uses minimum percentage of its revenues to provide health care to Medi-Cal and uninsured patients. This accounts for approximately 11.3% of ARMC's net revenue.

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- The SB 1255 program supplements eligible hospitals that are licensed to provide emergency medical services and contract with the California Medical Assistance Commission (CMAC) to serve Medi-Cal patients under the Selective Provider Contracting Program. Intergovernmental transfers are also made. These funds are combined with matching federal funds and redistributed by CMAC as supplemental payments to hospitals demonstrating a need for additional funds. CMAC ultimately determines the amount received by each participating hospital. This accounts for approximately 12.4% of ARMC's net revenue.

The GME program is part of the SB 1255 program and it provides supplemental payments to DSH hospitals that are also teaching facilities. Payments are determined solely by CMAC and the amount can vary from year to year. Similar to other SB 1255 revenues, the amount actually received is determined by the state during the course of the fiscal year. This accounts for approximately 1.0% of ARMC's net revenue.

- Medicare is a federal insurance program for people over the age of 65 and it accounts for 9.8% of ARMC's net revenue.
- Medi-Cal fee for service is a state run insurance program that covers medical bills for low-income patients and accounts for 23.4% of ARMC's net revenue.
- Medi-Cal Managed Care is a program that is administered by Inland Empire Health Plan and it covers medical costs for low-income patients under an HMO type structure and it accounts for 4% of ARMC's net revenue.
- Tobacco Tax funds are allocated by the state to partially reimburse hospitals for uncompensated medical care and they account for 1.2% of ARMC's net revenue.
- Other revenue is primarily cafeteria sales, reimbursements from contracted physicians for office space, and payment from Riverside Regional County Medical Center (RRCMC) for services provided by ARMC's medical residents assigned to RRCMC. This revenue accounts for 1.4% of ARMC's net revenue.
- Health Realignment is a portion of the vehicle license fees and sales tax collected by the state and distributed to counties to cover the cost of indigent health care. It accounts for 11.6% of ARMC's net revenue.

## II. BUDGET & WORKLOAD HISTORY

	<b>Actual 2001-02</b>	<b>Budget 2002-03</b>	<b>Actual 2002-03</b>	<b>Budget 2003-04</b>
Total Operating Expense	235,044,213	244,992,195	249,993,243	274,094,127
Total Financing Sources	231,496,839	246,621,803	257,161,998	263,631,781
Revenue Over/(Under) Expense	(3,547,374)	1,629,608	7,168,755	(10,462,346)
Budgeted Staffing		2,290.3		2,299.9
Fixed Assets	1,541,483	1,629,608	843,329	1,537,654
<b><u>Workload Indicators</u></b>				
Aver. Daily Inpatient Census ARMC	246	246	251	249
Aver. Daily Inpatient Census DBH	58	59	57	56
Emergency Room Visits	60,490	63,000	66,734	74,000
Outpatient Clinic Visits	210,057	208,000	221,101	221,000

Salaries and benefits were higher than budgeted in 2002-03 by \$3.4 million due to increased staff in the inpatient units to better monitor difficult patients and additional personnel required in the emergency room. Services and supplies were up by approximately \$200,000 due to higher utility usage and costs, increased security measures as recommended by the Sheriff's Department to better monitor the facility, increased medical supply costs due to increased drug costs and an increase in the number of prescriptions written, and increased costs to maintain the Medical Center's mechanical systems. These increases were partially offset by a reduction in medically indigent patient care costs.

Actual revenue for 2002-03 reflects the rate increase for Behavioral Health patients and the payment of a pro-rated share of ARMC's debt service which was partially offset by a decrease in DSH funds. Other revenue increased due to payment received from Riverside Regional County Medical Center (RRCMC) for ARMC's residents who rotate there for additional training.

**III. HIGHLIGHTS OF BOARD APPROVED CHANGES TO BUDGET (see attachments for detailed changes)**

**STAFFING CHANGES**

Overall budgeted staffing increased by 9.6 positions. The base budget reflect salary and benefit cost increases of \$11.9 million due to labor negotiations, retirement costs, and workers' compensation rate increases.

Budgeted staffing was increased by 65.0 positions as a result of five factors: (1) the need for increased personnel (19.0) in the emergency department to address volume increases that were not addressed in previous years; (2) the need for staff (43.0) on the nursing floors and at the Behavioral Health Unit to meet restraint regulations and better monitor disturbed/suicidal patients; (3) the addition of 1.0 Lactation Specialist to provide education for new mothers; (4) the addition of 1.0 Public Service Employee (PSE) to accommodate the Community Options Program; and (5) the addition of 1.0 Chief Financial Officer approved by the Board on May 13, 2003 (Item # 63).

Budgeted staffing was decreased by 55.4 positions as a result of six factors: (1) a decrease in security personnel (13.0) as their services are now incorporated into the external security contract; (2) the deletion of personnel (6.8) as a result of "The Right from the Start" (Proposition 10) program ending on June 30, 2003; (3) an accounting change requiring the Human Resources Officer (1.0) to be budgeted as a transfer out to reflect reimbursement for services provided by a Human Resources Department employee; (4) the deletion of 2.0 Custodians as their duties were reassigned to other personnel; and (5) the deletion of 22.0 clerical and 9.6 technical/other vacant positions; and (6) the deletion of 1.0 position as a result of eliminating a Radiology Assistant Manager, since these duties have been assumed by other personnel.

Also reflected is an increase of approximately \$0.8 million for the new Per Diem Nurse rate to be competitive with other area hospitals with the goal of reducing overtime, maintaining staffing ratios and providing proper patient care; an increase of approximately \$0.5 million for an underestimation of double time pay to Per Diem Nurses and other patient care personnel and an increase of approximately \$0.3 million for the elimination of the vacancy factor.

**PROGRAM CHANGES**

Within Board approved changes to the base budget, services and supplies increased from \$113,732,058 to \$117,156,033, a net increase of \$3,423,975. This increase is related to several changes with the most significant explained below:

- ❖ Based on experience on 2002-03:
  - Medical supplies cost is expected to increase \$1.1 million as a result of volume increases and the expiration of a lawsuit that previously provided ARMC with free drugs that now have to be purchased in the market.
  - Utility costs are rising by approximately \$0.5 million due to higher electricity usage and water charges that resulted from well water problems.
  - Temporary help cost is increasing by approximately \$0.4 million to account for vacant positions.
  - Professional services increases of approximately \$0.8 million are due to higher usage/costs related to kidney dialysis services, outside lab services, outside legal services, and payments to other hospitals for managed care patients assigned to ARMC.
  - Other contracts are increasing by approximately \$1.0 million due to a projected increase in maintenance cost as the equipment becomes aged and requires more upkeep, and laundry services for volume increases and lost linen replacement.
- ❖ Inflation, related primarily to medical supplies (approximately 3%), is projected to increase by approximately \$1.3 million.
- ❖ Overall Insurance premiums are increasing by approximately \$0.6 million, with Malpractice Insurance making up most of the hike.

These increases are partially offset by cost decreases of \$2.4 million with the elimination of Arrowhead Health Administrators, the closure of the Colton Clinic, elimination of expenses previously supported by Proposition 10 revenues, and EHAP and leases expenses now being recorded as transfers.

Within Board approved changes to the base budget, total revenue increased from \$221,289,803 to \$232,481,781 for a net increase of \$11,191,978. This increase is comprised of a number of substantial changes.

- ❖ The current services revenue category will increase by a net \$1.4 million. This will result from the following:

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- ARMC will increase fees, raising revenues by approximately \$4.7 million. These increases reflect growing operational costs and are consistent with fee schedules of other area hospitals.
- Since the Medical Center continues to operate nearer full capacity, fewer insured patients can be accommodated. This situation is projected to reduce revenues by approximately \$4.0 million.
- Enhanced collection efforts are projected to increase Private Pay revenues by approximately \$700,000.
- ❖ The state and federal revenue category will increase by a net \$9.5 million. This will result from the following:
  - Tobacco Tax revenues, distributed by a statutory allocation formula, are projected to decrease by approximately \$0.8 million based on receipt trends.
  - Proposition 10 revenue will decrease by approximately \$1.4 million as a result of "The Right from the Start" grant ending on June 30, 2003.
  - Medicare revenue is projected to increase by approximately \$3.9 million for an additional payment (commonly referred as exception payment) to offset the cost of building the new facility. These federal funds are available to help offset ARMC construction costs since the new facility enhances service to Medicare patients; funds are anticipated annually through 2009.
  - Medi-Cal revenue is projected to increase by approximately \$1.4 million as the result of an expected rate increase.
  - Projected receipt of Medi-Cal managed care funding via Inland Empire Health Plan has been decreased by approximately \$1.9 million to reflect member growth at a slower rate than previously anticipated.
  - SB 855 funding is expected to decline by approximately \$4.7 million as result of reductions in federal funding (commonly referred to as the "Federal Cliff") and increased state administrative fees.
  - SB 1255 funds are projected to increase by approximately \$13.0 million. (As in past years, the amount of funding ultimately received is not identified until late in the fiscal year.)
- ❖ Other revenue increased as a result of assigning medical resident staff to Riverside Regional County Medical Center and getting reimbursement for their services.

The Board approved several contracts due to renewals or replacements of old contracts that decreased services and supplies by \$1.1 million and increased revenues by \$5.5 million. The revenue increased is primarily due to additional Behavioral Health revenues as a result of a rate increase to realign revenues with expenses.

GROUP: Human Services System DEPARTMENT: Arrowhead Regional Medical Center FUND: Enterprise EAD MCR			FUNCTION: Health and Sanitation ACTIVITY: County Medical Center		
	2002-03 Actuals	2002-03 Approved Budget	2003-04 Board Approved Base Budget	2003-04 Board Approved Changes to Base Budget	2003-04 Final Budget
<b>Appropriation</b>					
Salaries and Benefits	124,266,268	120,773,138	132,651,067	2,527,540	135,178,607
Services and Supplies	115,001,468	114,838,886	113,732,058	3,423,975	117,156,033
Central Computer	893,981	893,981	893,981	(276,943)	617,038
Other Charges	648,866	78,545	78,545	(68,425)	10,120
Transfers	211,931	177,645	177,645	954,684	1,132,329
Total Exp Authority	241,022,514	236,762,195	247,533,296	6,560,831	254,094,127
Depreciation	-	-	-	12,000,000	12,000,000
Operating Transfers Out	8,970,729	8,230,000	8,230,000	(230,000)	8,000,000
Total Operating Expense	249,993,243	244,992,195	255,763,296	18,330,831	274,094,127
<b>Revenue</b>					
Current Services	68,349,655	55,578,700	61,578,700	1,427,639	63,006,339
State, Fed or Gov't Aid	155,346,591	157,471,006	156,919,006	9,466,645	166,385,651
Other Revenue	3,277,016	2,792,097	2,792,097	297,694	3,089,791
Total Revenue	226,973,262	215,841,803	221,289,803	11,191,978	232,481,781
Operating Transfers In	30,188,736	30,780,000	30,780,000	370,000	31,150,000
Total Financing Sources	257,161,998	246,621,803	252,069,803	11,561,978	263,631,781
Rev Over/(Under) Exp.	7,168,755	1,629,608	(3,693,493)	(6,768,853)	(10,462,346)
Budgeted Staffing		2,290.3	2,290.3	9.6	2,299.9
<b>Fixed Asset</b>					
Fixed Asset Equipment	521,238	1,000,000	1,000,000	250,000	1,250,000
Capital Lease Equipment	322,091	629,608	629,608	(341,954)	287,654
Total Fixed Asset	843,329	1,629,608	1,629,608	(91,954)	1,537,654

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Total Changes Included in Board Approved Base Budget	
Salaries and Benefits	4,779,330 MOU.
	5,967,240 Retirement.
	1,135,509 Risk Management Workers' Comp.
	20,696 Approved by the Board on December 17, 2002 - upgraded the Compliance Officer contract.
	34,772 Approved by the Board on December 17, 2002 - upgraded the Business & Marketing Director.
	2,223 Approved by the Board on January 28, 2003 - reclassified a Licensed Vocational Nurse (LVN) II to LVN III.
	3,522 Approved by the Board on February 11, 2003 - upgraded an Ultrasound Technician I to a Ultrasound Technician II.
	(65,363) Approved by the Board on February 11, 2003 - deleted 1.0 R\$adiology Assistant Manager.
	<u>11,877,929</u>
Services and Supplies	(506,368) Approved by the Board on June 25, 2002 - reduced contract with Institutional Pharmacy Services, Inc. related to operation of the inpatient & outpatient Pharmacy.
	(2,130,388) Approved by the Board on October 2, 2002 - decreased contracts with various physicians that provide services at the hospital.
	(166,000) Approved by the Board on October 29, 2002 - radiation contract reduction for oncology services.
	524,000 Approved by the Board on November 19, 2002- increased the contract with the California Emergency Physicians.
	156,000 Approved by the Board on December 3, 2002 - state mandated newborn screening tests of all babies delivered at ARMC.
	121,668 Approved by the Board on December 17, 2002 - new contract with Clinica Del Sol to replace Medical Personal Management contract to provide medical services to medically indigent adults.
	15,842 Approved by the Board on February 4, 2003 - increased contract with Wound Management for wound consulting services.
	808,471 Approved by the Board on February 25, 2003 - increased contract with AKAL for security services.
	69,947 Approved by the Board on March 25, 2003 - contract with 3M Corp. for unlimited software license used to maintain patient census data.
	<u>(1,106,828)</u>
<b>Revenue</b>	
Current Services	<u>6,000,000</u> Approved by the Board on march 4, 2003 - increased Behavioral Health contract for inpatient psychiatric services.
State, Fed or Gov't Aid	<u>(552,000)</u> Approved by the Board on October 22, 2002 - decreased managed care contract with Inland Empire Health Plan.
Total Operating Expense	10,771,101
Total Financing Sources Change	5,448,000
Total Rev Over/(Under) Exp Change	(5,323,101)
Total 2002-03 Operating Expense	244,992,195
Total 2002-03 Financing Sources	246,621,803
Total 2002-03 Rev Over/(Under) Exp	1,629,608
Total Base Budget Operating Expense	255,763,296
Total Base Budget Financing Sources	252,069,803
Total Base Budget Rev Over/(Under) Exp	(3,693,493)

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## Board Approved Changes to Base Budget

Salaries and Benefits	1,468,514	Additional 19.0 positions for the emergency room.
	824,531	Per diem ordinance increase.
	(462,925)	Delete 6.75 positions related to "The Right From The Start" Program.
	1,353,897	Add 43.0 positions to nursing and ARMC Behavioral Health unit to act as patients' observers.
	(466,963)	Delete 10.0 Security Technician I's and 3.0 Security Technician II's.
	72,011	Add 1.0 Lactation Specialist for Doula services.
	17,631	Add 1.0 PSE to accommodate Community Options personnel.
	(69,202)	Delete 2.0 Custodian II's.
	(89,909)	Delete 1.0 Human Resources Officer now recorded as transfer out.
	468,981	Increase special earnings (pad holiday) underestimated in prior year.
	(946,894)	Net decrease due to deletion of 31.6 vacant positions offset by addition of 1.0 Chief Financial Officer position.
	<u>357,868</u>	Eliminate vacancy factor.
	<u>2,527,540</u>	
Services and Supplies	(310,627)	Elimination of Arrowhead Health Administrators.
	(210,000)	Closure of Colton Clinic.
	450,600	Increased electricity usage and increased water charges with well water problems.
	(427,979)	GASB 34 Accounting Change (EHAP).
	(430,149)	GASB 34 Accounting Change - rent expense now budgeted in transfers.
	577,825	Increased overall insurance costs per Risk Management.
	391,000	Additional temporary help to fill vacant positions.
	1,312,100	Inflation primarily in medical supplies (\$1,181,000).
	(927,677)	The "Right From The Start" grant from the First Family commission ended June 30, 2003.
	809,000	Increase in professional services due to volume increases in Kidney Dialysis (\$123K), legal services (\$100K), outside
	288,500	Increased costs related to laundry services due to volume increase and lost linen replacement.
	1,076,000	Increase volume of prescriptions and expiration of free drug distribution from lawsuit settlement.
	683,500	Increased maintenance costs on equipment.
	90,000	Increased at home nursing services.
	<u>51,882</u>	Net increase for all other services and supplies.
	<u>3,423,975</u>	
Central Computer	<u>(276,943)</u>	
Other Charges	<u>(68,425)</u>	Reduction in lease payments.
Transfers	93,300	Additional HRO I and part of HR Chief.
	397,067	GASB 34 Accounting Change (EHAP).
	464,317	GASB 34 Accounting Change - rent leases previously budgeted as services and supplies.
	<u>954,684</u>	
Total Expenditure Authority	<u>6,560,831</u>	
Depreciation	<u>12,000,000</u>	Accounting adjustment to record depreciation as an operating expense.
Operating Transfers Out	<u>(230,000)</u>	Decrease in Architecture & Engineering site reuse fees.
Total Operating Expense	<u>18,330,831</u>	
Revenue		
Current Services	738,700	Increased private pay revenue because of enhanced collection effort.
	688,939	Net changes - decreased insurance revenue because of decline in volume plus increased revenue due to a fee increase of 10%.
	<u>1,427,639</u>	Anticipated decrease in patient pay and insurance.
State, Fed or Gov't Aid	(1,390,602)	The "right From The Start" grant ends on June 30, 2003.
	(810,899)	Reduction in Tobacco Tax revenue.
	(1,852,500)	Reduction in IEHP and Health Net Managed Care volume growth (\$1.3M), IEHP Indigent Fund (\$120K), IEHP Risk
	(4,751,003)	Reduction in SB 855 revenue because of federal cliff (legislation) and additional state administrative fee.
	1,395,167	Increase Medi-Cal due to rate increase.
	12,984,203	Increase in SB 1255 payments from the state.
	<u>3,892,279</u>	Increased Medicare inpatient revenue from additional exception payment.
	<u>9,466,645</u>	
Other Revenue	<u>297,694</u>	Various increases and decreases in other revenue.
Total Revenue	<u>11,191,978</u>	
Operating Transfer In	<u>370,000</u>	Decrease in realignment (\$230,000) and increase in trauma revenue.
Total Financing Sources	<u>11,561,978</u>	
Fixed Assets	250,000	Increased capital costs to buy out Radiology leases and buy additional Meditech servers.
	<u>(341,954)</u>	Reduction in lease payments.
	<u>(91,954)</u>	